

STATE OF MAINE
PUBLIC UTILITIES COMMISSION

Docket No. 98-654

September 11, 1998

NORTHERN UTILITIES, INC.,
Proposed Revision to Terms
and Conditions to Offer
Promotional Allowances and
Modify Investment Test

ORDER

WELCH, Chairman; NUGENT, Commissioner

I. SUMMARY

We approve Northern Utilities, Inc.'s (Northern) revised terms and conditions for effect on the date of this order.

II. PROCEDURAL HISTORY

On August 20, 1998, Northern filed proposed revised terms and conditions, seeking Commission approval by August 27, 1998. Northern proposes to amend sub-section D on Second Revised Page 3, to allow Northern "to offer promotional allowances to an expanded range of customer categories."

Northern also proposes to amend sub-sections 1 and 2 on Second Revised Page 12 of its current terms and conditions to modify the investment test that Northern applies to determine the amount a customer must pay (Contribution in Aid of Construction (CIAC)) when Northern installs new main extensions. Northern proposes to change from its current Net Investment Test to a discounted cash flow (DCF) and net present value (NPV) test "in order to more accurately assess the profitability of the service line extension and system improvement."

III. DISCUSSION

Title 35-A M.R.S.A. §307 requires that a utility file a change in terms and conditions with the Commission 30 days in advance of its proposed effective date. The statute also provides that the Commission may allow tariff changes on less than 30 days notice if it finds good cause to do so.

Northern requests a waiver of the 30-day approval period to allow it to employ these modified terms of service immediately in new and existing service areas "to serve and convert customers to natural gas more easily while still promoting its economic use." Both changes are designed to assist Northern in attracting new

customers by offering incentives and to more accurately determine the up-front costs to customers of taking service.

Northern's current promotional allowance tariff was established pursuant to stipulation in Northern Utilities, Inc. Re: Proposed Revisions to the Company's Terms and Conditions to Allow for Promotional Allowances, Docket No. 87-134, Order Approving Stipulation (Oct. 8, 1987). The current tariff delineates specific customer categories to which Northern may offer promotional allowances. Northern proposes to amend its terms and conditions to eliminate the customer categories and to allow it offer promotional allowances to any customer. The revised tariff also states that the costs incurred by Northern in offering promotional allowances will be accounted for by commission rules. Northern currently treats the costs of promotional allowances "below the line" for ratemaking purposes.

We approve this modification subject to the condition that such promotional allowances be treated in accordance with our rules. In addition to our rule governing the treatment of costs for advertising and promotional activities, newly-enacted Chapter 820 regarding accounting treatment of non-core activities applies to such activities. These programs, when appropriately used, should enable the utility to increase its customer base, resulting in benefits to other ratepayers from lower unit costs to serve. Because the costs of the promotional programs fall on the utility's shareholders, not ratepayers, we will allow Northern this increased flexibility in promoting its services.

Next, Northern seeks to modify its investment test to use a DCF NPV analysis to calculate the amount of contribution required from customers along new main extensions. The new test is less conservative but, if costs are calculated correctly, potentially more accurate as an investment measurement. Under traditional regulatory standards, we would engage in a careful, up-front review of this proposed revision prior to approval to ensure that costs of adding new customers are not passed on to existing rate payers. However, consistent with our recent determinations allowing competition in the provision of local distribution service and requiring shareholders to bear the risk of uneconomic development, we approve this tariff amendment. Central Maine Power Company, Petition for Approval to Furnish Gas Service In and To Areas Not Currently Receiving Natural Gas Service, Docket No. 96-786, Order (Aug. 17, 1998). We do so, again, on condition that shareholders bear the risk that the amended investment test may result in insufficient contributions to allow expansion without an overall increase in rates. We will examine this issue in detail if Northern seeks to raise its rates in the future.

Therefore, in acknowledgment of the present competitive environment, we approve these amendments to Northern's terms and conditions expeditiously, on condition that shareholders bear the costs of promotional allowances and the risks associated with a less conservative investment test.

Accordingly, we

O R D E R

1. That Northern Utilities, Inc.'s revisions to sub-section D, Second Revised Page 3 and sub-sections 1 and 2, Second Revised Page 12 of its Terms and Conditions of service are approved for effect on the date of this Order.

Dated at Augusta, Maine this 11th day of September, 1998.

BY ORDER OF THE COMMISSION

Dennis L. Keschl
Administrative Director

COMMISSIONERS VOTING FOR: WELCH
NUGENT

NOTICE OF RIGHTS TO REVIEW OR APPEAL

5 M.R.S.A. § 9061 requires the Public Utilities Commission to give each party to an adjudicatory proceeding written notice of the party's rights to review or appeal of its decision made at the conclusion of the adjudicatory proceeding. The methods of adjudicatory proceedings are as follows:

1. Reconsideration of the Commission's Order may be requested under Section 6(N) of the Commission's Rules of Practice and Procedure (65-407 C.M.R.11) within 20 days of the date of the Order by filing a petition with the Commission stating the grounds upon which consideration is sought.

2. Appeal of a final decision of the Commission may be taken to the Law Court by filing, within 30 days of the date of the Order, a Notice of Appeal with the Administrative Director of the Commission, pursuant to 35-A M.R.S.A. § 1320 (1)-(4) and the Maine Rules of Civil Procedure, Rule 73 et seq.

3. Additional court review of constitutional issues or issues involving the justness or reasonableness of rates may be had by the filing of an appeal with the Law Court, pursuant to 35-A M.R.S.A. § 1320 (5).

Note:The attachment of this Notice to a document does not indicate the Commission's view that the particular document may be subject to review or appeal. Similarly, the failure of the Commission to attach a copy of this Notice to a document does not indicate the Commission's view that the document is not subject to review or appeal.